A Report
to the
Montana
Legislature

Financial-Compliance Audit

Department of Administration

For the Two Fiscal Years Ended June 30, 2014

November 2014

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Division

14-13

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Financial-Compliance Audits

Financial-compliance audits are conducted by the Legislative Audit Division to determine whether an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) licenses.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2013, was issued March 28, 2014. The Single Audit Report for the two fiscal years ended June 30, 2015, will be issued by March 31, 2016. Copies of the Single Audit Report can be obtained by contacting:

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November 2014

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Department of Administration (department) for the two fiscal years ended June 30, 2014. Included in this report are 13 recommendations related to loss mitigation activities, federal questioned costs, accounting errors, deficiencies in the department's internal controls, and compliance with internal policies, state law, and state accounting policy.

This report includes the department's financial schedules. The financial schedule presentation is intended to provide the legislative body with information necessary for decision-making purposes; it is not intended to conform to the financial reporting requirements established in generally accepted accounting principles (GAAP). The financial schedule presentation has not changed, but audit reporting standards have changed. Auditing standards require us to clearly communicate that the financial schedule presentation is not intended to, and does not, conform to GAAP reporting requirements. The Independent Auditor's Report on page A-1 contains language to this effect in the section titled "Adverse Opinions on U.S. Generally Accepted Accounting Principles." This section does not imply the amounts presented on the department's financial schedules are not fairly stated. Page A-1 also communicates the extent to which the user can rely on the information contained in the financial schedules in the section titled "Unmodified Opinions on Regulatory Basis of Accounting."

The department's written response to the audit recommendations is included in the audit report at page B-1. We considered the department's non-concurring response to recommendation #2. We agree with the department that risks are not proportional across state agencies. As noted on page 11, federal regulations specify costs are only allowable to the extent of benefits received by the federal program. Because the department allocates the costs of loss mitigation activities to all state agencies as part of its premium setting process, and this method of accounting results in unallowable charges to federal programs at various state agencies, we maintain our position as reported.

We thank the director and department staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

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Appointed and Administrative Officials

Department of Administration

Sheila Hogan, Director

Mike Manion, Deputy Director and Chief Legal Counsel

Cheryl Grey, CPA, Administrator, State Financial Services Division

Thomas B. O'Connell, Administrator, Architecture and Engineering Division

Stephen Baiamonte, Administrator, General Services Division

Karen Wood, Acting Administrator, Health Care and Benefits Division

Marilyn Bartlett, CPA, Administrator, Health Care and Benefits Division (as of September 2014)

Ron Baldwin, Chief Information Officer, State Information Technology Services Division

Melanie Griggs Hall, Commissioner, Banking and Financial Institutions Division

Brett Dahl, Administrator, Risk Management and Tort Defense Division

Angela Wong, Director, Montana State Lottery

Anjenette Schafer, Administrator, State Human Resources Division

Karen Powell, Chair, Montana Tax Appeal Board

The Public Employees' Retirement Administration, the Teachers' Retirement System, the Office of the State Public Defender, and the Montana State Fund, which are allocated to the department, are audited separately and financial information is not included in the department's financial schedules.

For additional information concerning the Department of Administration, contact:

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MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL-COMPLIANCE AUDIT
Department of Administration
For the Two Fiscal Years Ended June 30, 2014

NOVEMBER 2014 14-13 REPORT SUMMARY

The Department of Administration is charged with administering many centralized functions for state government, including the comprehensive insurance program. The department is using insurance program reserves to pay the cost of loss mitigation activities that directly benefit other state agencies and units of the university system. The audit report contains a recommendation regarding the department's use of funds for costs that do not meet loss mitigation objectives and a recommendation related to federal questioned costs.

Context

The Department of Administration (department) employs over 500 people and is responsible for providing the following services crucial to other state agencies: accounting and financial reporting, payroll and employee benefits, warrant writing, Capitol complex maintenance, state treasury, insurance and risk management, information systems development and maintenance, construction and remodeling of state buildings, personnel management, purchasing, statewide leasing, and surplus property administration. The department accounts for activity in nearly every fund type applicable to state government. Over half of the department's revenue and expenditure activity is derived from functions accounted for in the department's Internal Service and Enterprise funds.

In fiscal years 2013-14 and 2012-13, the department received revenues from Internal Service Fund operations of approximately $248.1 million and $254.1 million, respectively.

As required by statute or legislation, the department transfers funds to several other state agencies. Significant General Fund transfers authorized during the 2013 Legislative Session include $20.4 million to the natural resources projects account, $11.4 million to the long-range information technology program account, up to $21 million to the public employees' retirement system defined benefit plan trust fund, $13.5 million to various state agency operations accounts, $22.9 million to the Montana support for schools account for the purposes of funding costs of restructuring the basic entitlement to K-12 schools, and $25 million to the teachers' retirement system pension trust fund. Some transfers are required annually while others were one-time-only, and most were recorded in fiscal year 2013-14.

Results

Our report contains 13 recommendations related to loss mitigation activities, federal questioned costs, accounting errors, deficiencies in internal controls of the department, and compliance with its policies, state law, and state accounting policy.

The department has funded loss mitigation with moneys from the comprehensive insurance program. The methods used to account for these activities have resulted in unallowable costs being charged to various federal programs administered by the state.

(continued on back)

The department records Other Post Employment Benefit (OPEB) expenses and liabilities on behalf of all state agencies. Since fiscal year 2008-09, the department has not made a required adjustment to the calculation. The errors have accumulated to a $69.3 million overstatement in OPEB liabilities on the state's accounting records as of June 30, 2014.

The department develops accounting policies used by all state agencies. Our audit identified instances where policies do not provide adequate guidance to state agencies.

We reviewed the fund equity balances and fees charged for each Internal Service Fund as required by §17-8-101(6), MCA, and identified noncompliance for four of the department's internal service funds.

Annually, the department receives federal moneys related to harvest of timber on national forests within the boundaries of the state. These moneys are distributed to counties in which the national forest lands are located and are to be used for the benefit of public schools and public roads. In fiscal years 2013-14 and 2012-13, the department received and distributed approximately $18.6 million and $19.7 million, respectively, under this program. The department does not conduct adequate monitoring of the use of funds at the county level, as required by federal regulations.

Our prior audit report for the two fiscal years ended June 30, 2012, contained eight recommendations. The department implemented five and partially implemented three recommendations. The recommendations not implemented relate to authorization for special insurance needs, compliance with the deposit requirements specified in state law, and establishing appropriate access to funds on the state's accounting system.

Recommendation Concurrence	
Concur	11
Partially Concur	1
Do Not Concur	1
Source: Agency audit response included in final report.	

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Chapter I – Introduction

Introduction

We performed a financial-compliance audit of the Department of Administration (department) for the two fiscal years ended June 30, 2014. The objectives of the audit were to:

1. Obtain an understanding of the department's control systems to the extent necessary to support our audit of the department's financial schedules and, if appropriate, make recommendations for improvement in management and internal control of the department.
2. Determine whether the department complied with selected state and federal laws and regulations.
3. Evaluate the implementation status of prior audit recommendations.
4. Determine whether the department's financial schedules present fairly the results of its operations and changes in fund equity and property held in trust for each of the two fiscal years ended June 30, 2014.

Auditing standards require us to communicate, in writing, deficiencies in internal control we identified as a result of audit objective #1 above and considered to be significant or material. A deficiency in internal control exists when the design or operation of a control does not allow management or employees to prevent or detect and correct misstatements on a timely basis. A material weakness is one or more deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial schedules will not be prevented, or detected and corrected on a timely basis. A significant deficiency is one or more deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Table 1 below outlines the status of significant deficiencies and material weaknesses we identified during this audit.

Table 1
Summary of Deficiencies in Internal Control

Subject	Type of Deficiency	Page
Loss Mitigation Administration	Significant Deficiency	9
State Accounting Policy	Significant Deficiency	14
Inter-Entity Loan Reconciliation	Significant Deficiency	15
Expense Management System Access	Significant Deficiency	19

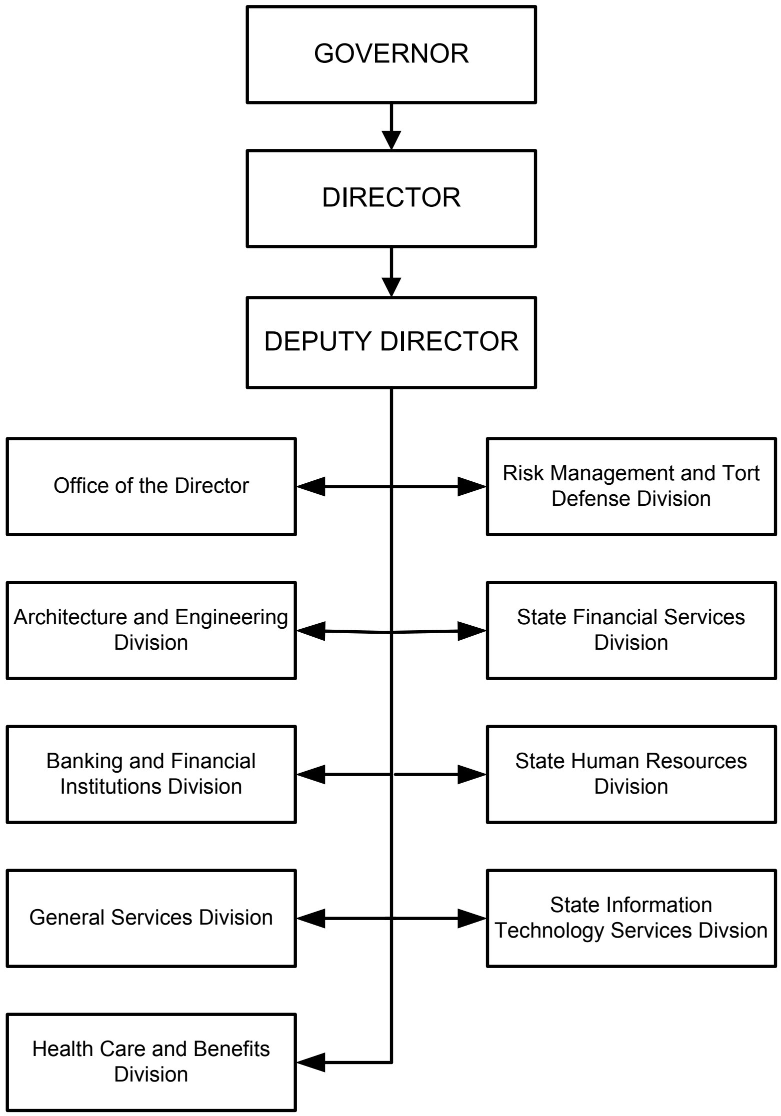
Our consideration of internal control was not for the purpose of expressing an opinion on the effectiveness of internal controls. Therefore, material weaknesses or significant deficiencies may exist that were not identified.

This report contains 13 recommendations related to loss mitigation activities, federal questioned costs, accounting errors, deficiencies in the department's internal controls, and compliance with department policies, state law, and state accounting policy.

Department Organization and Functions

The department provides services to other state agencies in the areas of accounting and financial reporting, payroll and employee benefits, warrant writing, Capitol complex maintenance, state treasury services, insurance and risk management, information systems development, construction and remodeling of state buildings, personnel management, purchasing, statewide leasing, and surplus property administration. In addition to the Director's Office program, the department is organized into eight divisions as outlined in Figure 1 (see page 3). Activity related to the Montana State Lottery and Montana Tax Appeal Board are reported in the department's financial information.

Figure 1
Organization Chart



Source: Compiled by Department of Administration.

The following paragraphs describe the department's primary functions and list the authorized full-time equivalent (FTE) positions for fiscal year 2013-14.

Office of the Director (27.01 FTE)–Responsible for the overall supervision and coordination of department programs and allocated boards and agencies. The office also provides management support (accounting, budgeting, payroll, personnel management, and legal services) to the department and supports the Board of Examiners. As of fiscal

year 2013-14, the State Continuity and Emergency Management Office and Labor Relations Office activities are reorganized to the Office.

State Financial Services Division (48.00 FTE)–Establishes state accounting policies and procedures, operates the financial portion of the Statewide Accounting, Budgeting, and Human Resources System (SABHRS), administers the federal Cash Management Improvement Act (CMIA), processes warrants for all state agencies, and prepares the state's Basic Financial Statements. The division provides technical assistance and training to local government accounting and financial personnel. The division also provides the treasury function for state agencies and administers the social security program.

Architecture and Engineering Division (17.00 FTE)–Manages the remodeling and construction of state buildings. The division also formulates a long-range building plan for legislative consideration each session.

Banking and Financial Institutions Division (37.00 FTE)–Responsible for protecting the public's interest by regulation of all state-chartered banks and financial institutions. Supervision of regulated financial institutions is accomplished through on-site financial safety and soundness examinations conducted by division examiners.

General Services Division (88.10 FTE)–Manages facilities leasing, and operations and maintenance services for state agencies in the Capitol complex and several state-owned buildings in the Helena area. The procurement and printing function of the division provides centralized purchasing, printing, and mail services to state agencies located in the Helena area. The division also manages recycling and surplus property and provides security guidance to agencies across the state.

Health Care and Benefits Division (22.87 FTE)–Provides state employees and retirees and their dependents with group medical, dental, prescription drug, life insurance, and other related group benefits. The division administers employees' flexible spending accounts, a sick leave fund, and performs workers' compensation oversight via its workplace safety and return to work programs. The division also provides for the administration of the State's Voluntary Employees' Beneficiary Association.

State Information Technology Services Division (191.50 FTE)–Establishes and enforces statewide information technology policies and standards. The division, administered by the Chief Information Officer, provides computer processing services for state agencies that access the central mainframe computer. The division is responsible for the development and implementation of the Strategic Plan for Information Technology. The division designs and develops data processing

applications and provides maintenance support. The division provides data processing training, support, and consulting services for microcomputer and office automation systems. Disaster recovery facilities for critical data processing applications are also managed by the division.

Risk Management and Tort Defense (17.00 FTE)–Provides insurance coverage for state agencies and universities, administers the self-insurance and risk management program, and defends state agencies in tort claims lawsuits.

State Human Resources Division (41.00 FTE)–Provides state agencies with human resource management services including training, position classification and pay, collective bargaining, and employee relations. The Office of Labor Relations is responsible for collective bargaining, and was accounted for in the division for fiscal year 2012-13. Additionally, the division publishes state rules, standards, and policies relating to recruitment, selection, discipline, grievance, performance appraisal, leave, and other matters. The division also administers employee incentive awards. The division administers the state's human resources module within the Statewide Accounting, Budgeting, and Human Resources System (SABHRS), supplying payroll and other human resource information systems for state government.

Montana State Lottery (31.50 FTE)–Sets policy and oversees activities and procedures of the lottery. The program director coordinates the lottery's marketing, operations, security, and administration. Legislative Audit Division performs biennial audits of lottery security (13DP-01). The Lottery Commission is allocated to the department for administrative purposes only. Financial activity of the Montana State Lottery is audited annually by the Legislative Audit Division (13-30A).

Montana Tax Appeal Board (7.50 FTE)–Resolves tax appeals concerning real and personal property, income, corporate, natural resource, centrally assessed property, and new industry taxes. The three-member board and its staff are administratively attached to the department.

Internal Service Funds

In accordance with §17-8-101(6), MCA, we reviewed the fees charged and the fund equity of the department's internal service funds. We considered fees commensurate with costs if working capital was positive and did not exceed 60 days of expenditure activity for the fund. For those internal service funds not authorized to maintain reserves, we considered fund equity reasonable if the balance after excluding nonspendable assets was less than 60 days of expenditure activity for the fund or if the balance was negative to the extent of long-term liabilities.

The following table summarizes the department's internal service funds:

Table 2
Internal Service Funds and Descriptions

Internal Service Fund Name	Description
SITSD Proprietary	Manages information technology services for state government such as central mainframe computer processing, local and long-distance telephone networking, and electronic government planning and coordination.
Intergovernmental Training	Provides a variety of training products and facilitation services to state agencies.
Rent & Maintenance	Provides maintenance, security, and custodial services for buildings in the state Capitol area.
Print & Mail Services	Provides staff to operate a centralized mailing operation and services for printing and administration of a photocopy pool.
Central Stores	Offers an online purchasing portal providing users with the ability to purchase goods directly from contracted vendors.
Agency Insurance	Provides for the investigation, defense, and payment of bodily injury and property damage claims incurred by all agencies, officers, and employees of the state of Montana.
Management Services	Coordinates preparation of the department's biennial budget for submission to the Office of Budget and Program Planning and its presentation to the legislature, processes budget change documents, and monitors approved budgets for compliance with state law and legislative intent. This also includes legal services which advises all divisions within the department on legal matters, and the human resource unit which processes payroll and provides human resource functions for all divisions of the department.
Group Benefits & Claims	Provides state employees, retirees, and their dependents with medical, dental, prescription drug, life insurance, and other related group benefits.
HR Info Services	Provides services for the human resources portion of SABHRS and for preparation and distribution of payroll and associated withholding and deductions of state employees.
Continuity Emergency Management	Established in fiscal year 2013-14 as part of the department's reorganization of various continuity and emergency management functions.
Warrant Writing	Provides the warrant writer program to most state agencies for check writing and automatic deposit capabilities.
SABHRS	Provides services for the financial and budgeting portion of the Statewide Accounting, Budgeting, and Human Resources System.
Workers' Compensation Management	Provides a way to manage and reduce the state's workers' compensation injuries and premiums.

Source: Compiled by the Legislative Audit Division.

In fiscal year 2012-13, fees were not commensurate with costs or fund equity was not reasonable in the Management Services, HR Info Services, Intergovernmental Training, and Workers' Compensation Management internal service funds. Issues related to fiscal year 2013-14 are discussed in Recommendation #13 beginning on page 23.

Prior Audit Recommendations

The prior audit report for the two fiscal years ended June 30, 2012, contained eight recommendations to the department. The department implemented five and partially implemented three recommendations. The recommendations not fully implemented relate to authorization for special insurance needs and compliance with the deposit requirements specified in state law (further discussed below), and establishing appropriate access to funds on the state's accounting system (see page 14).

Our prior audit included a recommendation to properly record revenues for special purpose insurance policies related to Risk Management and Tort Defense activities, and to seek authorization to collect the actual cost of special purpose insurance coverage when the need for additional insurance coverage arises. During the current audit period, the department properly recorded revenues, but the department did not seek authority to collect the actual cost of special purpose insurance coverage when the need for additional insurance coverage arises. Department staff indicated the legislation was not a priority for department administration at the time. We make no additional recommendation at this time, and will follow up as part of our next audit.

Also included in the prior audit report was a recommendation regarding Architecture and Engineering Division's compliance with the state's timely deposits statute. The department was aware of two instances during the current audit period where deposits were made later than required by law. Because department staff were aware of these instances of noncompliance and have implemented procedures to track deposits, we make no additional recommendation at this time.

Chapter II – Findings and Recommendations

Risk Management & Tort Defense Division

Risk Management & Tort Defense Division (RMTD) administers a comprehensive insurance plan (Plan) on behalf of state government, as authorized by §2-9-201, MCA. Statute specifies, in part, "The plan may include property, casualty liability, crime, fidelity, and any such other policies of insurance as the department of administration may from time to time deem reasonable and prudent." State law further authorizes the use of Plan funds to purchase insurance policies, to pay claims, and to maintain a self-insurance reserve account. As part of the Plan, RMTD works with agencies to identify insurance needs, and purchases various policies to provide coverage for state agencies and the Montana University System. Agencies and units of the university system, in turn, purchase the insurance coverage from RMTD.

During the audit, we learned RMTD funds loss mitigation activities with Plan moneys. The department considers loss mitigation activities essential to the state's overall Plan by allowing RMTD to obtain lower cost third-party insurance coverage in the marketplace. As a result, all Plan participants are charged lower premium costs than if no loss mitigation activities could be demonstrated. During the audit, we confirmed the marketplace expectation for loss mitigation activities. We believe these activities could be better controlled by the department. The following two sections discuss areas where administration of loss mitigation activities requires improvement.

Loss Mitigation Administration

The department incurred loss mitigation costs in manners inconsistent with its guidelines.

As discussed above, RMTD funds loss mitigation activities with Plan moneys. Department documentation indicates loss mitigation funds are available, "to state agencies and universities for projects, equipment, or training that reduce the likelihood or severity of future insured auto, aviation, liability and property claims." RMTD incurred expenditures for loss mitigation activities totaling over $520,000 and $216,000 in fiscal years 2013-14 and 2012-13, respectively. Among other things, funds were used to purchase vehicles and a skid steer, to upgrade security for state-occupied buildings, to pay for increased security patrols during cold weather, and to pay a portion of contracted services for security patrols on the Capitol complex.

During the audit, we reviewed 7 of 68 applications approved for fiscal years 2013-14 and 2012-13, and noted the following instances where the intent was not achieved or RMTD guidelines were not followed:

- One instance where loss mitigation funds were used for a purpose other than loss mitigation activities. Funds were used to pay a portion of the costs for three Montana Highway Patrol vehicles. These vehicles are used by officers assigned to the Governor's security detail. Purchasing new vehicles does not mitigate the risk of future insured auto, aviation, liability or property claims. In addition, the replacement of Montana Highway Patrol vehicles is part of the Department of Justice's base budget. Therefore, this cost should not qualify for loss mitigation funds.
- One instance where an application was approved for equipment upgrades but funds were used for increased security provided by City of Helena police. The City of Helena services are provided under contract with General Services Division, which also has an agreement with the Legislative Branch. In fiscal year 2012-13, the contract involved a single police officer funded by General Services Division. Beginning July 1, 2013, under a new contract with City of Helena, three police officers provide security on the Capitol complex. A single officer continued to be funded by General Services Division, with funding for a second officer specifically authorized by the legislature for the 2015 biennium. Costs associated with the third police officer were paid as an RMTD loss mitigation activity.
- Two instances where documentation indicates payment of funds were directed by nondepartment staff. RMTD guidelines specify application review and approval are the responsibility of RMTD.
- Two instances where costs incurred exceeded the amount approved in the application. RMTD guidelines indicate RMTD will establish the amount if the application is approved.
- One instance where loss mitigation costs were incurred approximately six months in advance of approval. RMTD guidelines require approval prior to the benefitting entity incurring costs.
- One instance where costs were incurred in a fiscal year prior to the period authorized by RMTD's approval of the application.

Based on our review, the department has not clearly documented how certain loss mitigation payments achieve the intent of the department.

Recommendation #1

We recommend the department:

A. *Approve only those loss mitigation activities meeting established criteria, and*

B. *Clearly document its approval in relation to the type of future insured loss the mitigation activity addresses.*

Accounting for Loss Mitigation Activities

RMTD establishes premiums for agency insurance coverage based on a number of factors, one of which is its projected costs to operate the Plan for the year. Included in projected costs for the Plan are loss mitigation activities such as those described on the previous page. Loss mitigation costs are generally paid by RMTD on behalf of state agencies and universities whose application for a loss mitigation activity is approved. For example, the Department of Public Health and Human Services (DPHHS) identified the lack of a security system as a risk to clients and staff at an office of public assistance. DPHHS applied for loss mitigation funds, and upon approval, arranged for an update to the security system as well as installation of security cameras. The invoices for all services and equipment were forwarded to the department for payment from Plan moneys. This accounting method increases the cost of services in the RMTD's internal service fund, and therefore increases insurance premiums charged to each participating state agency.

In contrast, entities participating in loss mitigation offered by other state entities are rewarded with a lower premium for conducting and paying for their own loss prevention activities. For example, Montana State Fund offers workers' compensation insurance to state agencies, the universities, and other businesses in the state. When individual agencies or employers take action to address risks specific to their business activities, the specific agency or employer pays a reduced insurance premium.

Federal Questioned Costs

By including costs related to loss mitigation activities in projected costs for the comprehensive insurance plan, various state agencies have charged unallowable costs to their federal programs.

In order to qualify as allowable to a federal program, the cost must be ordinary and necessary for the efficient performance of the federal award, and is only allowable to the extent of benefits received by the federal program. Federal regulations also specify capital expenditures are unallowable as indirect costs of a federal program. In the security camera example described above, the costs would not be allowable charges to the federal Highway Planning and Construction grant because the security cameras do not benefit that federal program.

By paying the cost of loss mitigation activities from its internal service fund, costs are recovered as part of the insurance premium collected from state agencies and units of the Montana University System. A portion of these insurance costs are allocated at the university or state agency level to federal and state sources. As a result, any federal

program to which a portion of RMTD premiums have been allocated has incurred unallowable federal costs.

For example, in fiscal year 2013-14, RMTD funded over $520,000 in loss mitigation activities. Of that amount, we estimate the allocation of these costs of the entire Plan at the agency level resulted in $3,795 of unallowable charges to the federal Medicaid program. The costs are considered unallowable because they do not directly benefit the Medicaid program. Should the department continue to pay for loss mitigation activities on behalf of other entities, and if any state entity allocates a portion of their RMTD insurance costs to federal funding sources, those federal programs could be placed in the position of having to repay the federal government.

If the cost of loss mitigation activities were paid directly by the entity benefitting from it, the challenge of allocating costs to federal programs, as described above, would be eliminated.

Recommendation #2

We recommend the department:

A. *Comply with federal regulations by excluding the cost of loss mitigation activities from the insurance premium rate setting process.*

B. *Require agencies to bear the cost of loss mitigation activities.*

Internal Controls

Per state accounting policy, management is responsible for establishing and maintaining internal controls. Internal controls are policies and procedures used by management to ensure that their agencies, programs, or functions operate efficiently and effectively. Internal controls work to ensure compliance with applicable laws and regulations and to ensure that transactions are accurately and properly recorded. Since agencies in state government differ, it is management's responsibility to develop policies and procedures that best fit its agency's business needs.

State accounting policy provides guidance to assist management in identifying risks associated to their agency and in implementing controls to address those risks. Without completing and reporting a risk assessment, the agency exposes itself to potential losses or errors. During our review of the department, we identified internal control weaknesses in the following seven areas.

Other Post Employment Benefits

Lack of adjustment led to $69.3 million in accumulated overstatements in Other Post Employment Benefit liability on the state's accounting records.

Beginning in fiscal year 2007-08, generally accepted accounting principles require government employers to report the annual cost incurred and accumulated liability related to Other Post Employment Benefits (OPEB). The accounting standards define OPEB as post employment benefits other than pensions. The state's OPEB is limited to post employment health care benefits to employees and dependents who elect to continue coverage after retirement and pay administratively established premiums. Even though this is a pay-as-you-go plan, the cost and related liability must be reported.

The department calculates OPEB costs and the related liability on an annual basis. Generally accepted accounting principles require the calculation to include an adjustment be made to offset the amount of interest already included in the actuarial estimates. The department believed the adjustment applied only if the state made contributions to fund the liability. However, the adjustment is not optional. As a result of omitting the adjustment from the department's calculation, total OPEB liability is overstated on the state's accounting records by $69.3 million as of June 30, 2014. The error impacts the accounting records for all non-university component units and any state entity having proprietary activity. The department's total OPEB expense for fiscal years 2013-14 and 2012-13 are overstated by approximately $250,000 and $200,000, respectively, on the Schedules of Total Expenditures and Transfers-Out.

The liability is not presented in the department's financial schedules, and the errors in OBEB expense are small in relation to total department expenditures each year. Therefore, this error does not constitute a significant deficiency or material weakness in the department's internal controls in relation to the financial schedules included in this report. We will consider the impact of this internal control weakness in our audit of the state's Basic Financial Statements for the fiscal year ended June 30, 2014.

Recommendation #3

We recommend the department:

A. *Record correcting entries to the state's accounting records to decrease the Other Post Employment Benefits liability, and*

B. *Include the required adjustment in its Other Post Employment Benefits calculations, as required by generally accepted accounting principles.*

State Accounting Policy

State accounting policy does not provide complete instructions to state agencies of their responsibility to review changes in accounts on the state's accounting system.

State law charges the department with establishing a uniform accounting system for all state agencies to report the receipt, use, and disposition of all public money and property in accordance with generally accepted accounting principles. In carrying out these duties, the department's State Financial Services Division (SFSD) also issues state accounting policy regarding basic procedures for recording information on the state's accounting system.

Under state accounting policy, an agency uses a Form 121 to establish, modify, or inactivate an account. The Form 121 documents the account's administering agency (the account owner), other state agencies authorized to access the account, the associated fund equity classification, and whether each agency's activity is considered budgeted or nonbudgeted. When a Form 121 is submitted, one SFSD employee reviews and approves the requested changes and a different staff member makes the changes in the system. SFSD's procedures do not include a review of the system to determine whether the changes were made correctly. Instead, SFSD relies on the state agencies to monitor access to accounts each agency administers, as well as to ensure the proper fund equity classification and budget status is input for accounts it administers.

In our prior audit report, we recommended the department provide guidance to state agencies regarding review of Form 121 changes. The department partially implemented the recommendation by modifying state accounting policy requiring agencies to conduct an annual review of access for accounts for which they are the administering agency. SFSD has also included this as a topic at annual training offered to agency accountants. However, state accounting policy remains silent on instructions regarding fund equity classification and budget status reviews.

During the past two years, other agency audit teams identified instances where SFSD did not make Form 121 changes as requested. SFSD staff do not notify state agencies when Form 121 changes are input to SABHRS. Without this communication, the value of the agencies' annual reviews of access is diminished. In addition, the policy requiring annual review of access does not address Form 121 changes for fund equity classification or budget status.

As part of the fiscal year-end procedures, the department asks agencies to review for accuracy a spreadsheet of active funds and fund equity classification. However, the

fiscal year-end processes have not been effective in identifying fund equity classification errors, which leaves the state at risk of inaccurate information being recorded on the state accounting records.

SFSD employees instructed us on how to review SABHRS for account accuracy. These instructions should be incorporated into state accounting policy as tools for agencies to effectively monitor the completion of requested changes to the state's accounting records.

RECOMMENDATION #4

We recommend the department provide guidance in state accounting policy regarding review of proper fund equity account classification and budget status.

Inter-Entity Loan Reconciliation

The department did not complete timely reconciliations of inter-entity loan activity for fiscal year 2013-14.

SFSD has an established control to reconcile, on a monthly basis, the transactions related to inter-entity loans for all state agencies and units of the university system. As of August 2014, the department had not completed fiscal year 2013-14 reconciliations for April, May, and June. Department staff indicated SFSD was shorthanded during fiscal year-end as the reason reconciliations remained incomplete. In addition, staff indicated they were not concerned with incomplete inter-entity loan reconciliations because they could make an adjustment for presentation in the state's Basic Financial Statements. Incomplete reconciliations place the department at risk of failing to comply with state law which requires agencies to input all necessary transactions to the accounting system before the accounts are closed at the end of the fiscal year in order to present the receipt, use, and disposition of all money and property for which the agency is accountable.

Completed reconciliations were provided to us in September 2014, and no errors were identified as a result of the reconciliation. However, without timely reconciliations, there is risk that agency financials could be misstated for errors in inter-entity loan processing.

Recommendation #5

We recommend the department follow its internal control procedures to conduct timely reconciliations of inter-entity loan activity.

Use of Capitol Complex Grounds

General Services Division does not assess the need for a vendor using the Capitol complex to have liability insurance or additional licenses or permits.

The department allows for the use of the Capitol complex grounds and buildings by various nonprofits and vendors to conduct activities for the public. Department policy requires the General Services Division to assess the need for an entity using the Capitol complex to obtain liability insurance. General Services personnel stated they do not consider whether insurance should be required for vendors using the Capitol complex.

Members of the public using the services provided by those vendors have an expectation that the vendor has necessary insurance, along with licenses and permits (e.g. food vendor license, city permits), in order to operate. Vendors using the Capitol complex are required to have a permit through General Services Division. If the state allows vendors to use the Capitol complex without these items, the state could be exposed to potential liabilities. Since the vendor's activities are taking place on the state's property, the state may be held responsible for any incident or injury that occurs.

While it may not be necessary for all vendors to have liability insurance or additional licenses and permits, the state should retain documentation of their consideration of each vendor's need. If agency personnel documented their consideration of whether vendors needed liability insurance or additional licenses or permits, management could better assess the risks associated with letting outside vendors use the Capitol complex grounds and buildings.

Recommendation #6

We recommend the department establish procedures to assess and document its consideration for a vendor to have licenses, permits, and liability insurance in order to use the Capitol complex.

Montana Health Center

Health Care and Benefits Division (HCBD) contracts for basic health services to state of Montana employees, non-Medicare retirees who choose to continue participating in the state's health plan, and their dependents, at four Montana Employee Health Centers across the state. The first health center opened in Helena in August 2012, with clinics following in Miles City, Billings, and Missoula. The Helena clinic also serves Montana University System (MUS) employees and individuals covered by other self-insured public entities that have agreed to be party to the state's contract. The health centers are funded primarily by the state, with a portion of the Helena center's costs covered by MUS and other public entities. HCBD staff are involved in determining the number and mix of providers at each health center.

The department promotes the health centers as an avenue to contain costs incurred by the state's self-funded health insurance plan. Per the contract, the department is responsible to pay the expenses associated with establishing each health center, including up to $20,000 to purchase equipment and supplies prior to each health center opening. Once operational, the department reimburses the contractor for costs associated with health center operations. This includes medical provider wages, pass-through costs of some services provided at other locations, mileage associated with health screenings provided at locations throughout the state, and supplies ordered by the health centers. In addition to the above costs, the department pays a monthly management fee based on the number of employees covered by the state's health insurance plan.

Individuals who receive medical care at the health centers do not pay a fee for the services received. Rather, all costs are born by the state and other entities participating in the state's contract, as discussed above. When referred for special tests, such as radiology services, it is at no cost to the state health plan participant. Instead, the costs associated with services are billed to the department as a pass-through expense.

Montana Health Center Controls

Health Care and Benefits Division has weaknesses in internal controls related to its Montana Employee Health Centers.

During the audit, we identified the following internal control weaknesses related to the operation of the Montana Health Centers:

- Plan participants schedule appointments online or by calling the health center. To successfully schedule their first appointment, the plan participant must provide their social security number, name and date of birth. When an individual arrives for an appointment at the center, staff do not ask for a form of identification. There is a risk an insured individual could schedule an

appointment online and another individual could be seen at the appointment. As a result, the state could pay for costs not benefiting insured individuals. Department staff believe this scenario would only occur in the event of identity theft or fraud involving both the employee and the person receiving the medical care. However, because the costs for health center services, including those services received as the result of referrals where costs are passed through to the state, can accumulate quickly, the department should strengthen controls to confirm eligible individuals are the ones receiving the services.

- The invoices for each clinic include the total hours worked by each clinic employee. HCBD does not receive support for these hours. There is risk the hours included on the monthly invoice are overstated and the state is overpaying services.
- Health center employees travel across the state to provide assessments to individuals who do not live in a town with a clinic. HCBD receives an invoice for the costs of Health Risk Assessments completed outside of the clinics. Included on the invoice is mileage of each employee who traveled. Because HCBD does not receive any support for the miles traveled or how many vehicles were used, there is a risk the state is overpaying for mileage costs.

HCBD believes the processes in place are adequate to address business risks. However, we believe enhanced internal controls over Montana Health Center activities are necessary to ensure HCBD is paying only for costs attributable to participants in the state's group health insurance program.

RECOMMENDATION #7

We recommend the department strengthen their internal controls at the Montana Health Centers to ensure the insurance plan pays only for costs attributable to program participants.

Montana Health Center Equipment

Laptop computers at the Montana Health Centers, purchased by HCBD, are not tagged and tracked in accordance with state accounting policy.

Per the contract with the health center service provider, the state was responsible for the expense of setting up a clinic, including purchasing equipment and supplies. As required in the contract, HCBD purchased laptop computers for each of the four clinics. The laptops purchased are property of the state. During the audit we noted these laptops are not tagged or inventoried at any location.

State accounting policy requires agencies track and inventory sensitive items with a cost under the capitalization threshold of $5,000. Policy further defines laptops as sensitive items, and requires the assets be tagged in the same manner as capital equipment, if possible, and recommends they be recorded on the Asset Management System. Every two years agencies are required to take a complete physical inventory of sensitive equipment. HCBD staff were not aware that laptops qualified as sensitive items. Staff stated that tagging laptops was discussed during the establishment of the health centers, but no further action was taken.

RECOMMENDATION #8

We recommend the department tag and inventory all state owned equipment located at the Montana Health Centers, in accordance with state accounting policy.

Expense Management System Access

Two individuals have inappropriate access to the Expense Management System at the State Information and Technology Services Division.

State Information and Technology Services Division (SITSD) utilizes Expense Management System (EMS) to track and create all telecommunication services invoices and receivables for all state agencies. All users of EMS are limited to read only access other than those assigned as SITSD Technicians. SITSD Technicians are responsible for editing or correcting any coding errors as well as inputting or changing the rates set for all telecommunication services tracked on the system. As part of the audit, we reviewed all employees with SITSD Technician access to the system. Of the seven employees with this access, two were not SITSD employees.

One employee is a University of Montana employee who was set up with incorrect access. The second individual is a former SITSD employee whose access was not properly removed after transferring to another agency. SITSD procedures include steps to remove employees when they terminate from SITSD. According to SITSD staff, the employee's access was removed but was re-established because the former employee agreed to correct an issue with a report he had worked on. The access was not removed in a timely manner after the corrections were made. Internal controls failed to detect the inappropriate access. There is a risk that rates could be changed or inaccurate data could be entered by users with inappropriate access.

RECOMMENDATION #9

We recommend the department:

A. *Follow its procedures for removing terminated employee access, and*

B. *Develop controls to periodically review Expense Management System user access.*

Architecture & Engineering Pecuniary Interest

Architecture and Engineering Division does not have procedures in place to ensure no pecuniary interest exists in any building construction project in accordance with state law.

Section 18-2-106, MCA, requires the Director of Administration and the State Architect not have a direct or indirect pecuniary interest in any contract, transaction, or project involving the construction of a building. Additionally, the law specifies that an employee of the department who is directly responsible for construction procurement may not have a direct pecuniary interest in a contract unless the contract is awarded through a competitive procurement procedure.

The Architecture and Engineering Division (division) does not have policies or procedures in place to identify these interests before a construction contract is entered into or a building project is started. Division staff indicated that they rely on the Director, State Architect, and construction procurement employees to notify the division if an interest exists.

Although we did not identify the existence of pecuniary interest as part of our audit, there is a risk that pecuniary interests are not being identified and the division not being in compliance with state law. The department is in the process of developing a department-wide conflict of interest disclosure process to address this type of risk.

RECOMMENDATION #10

We recommend the department implement policies and procedures to identify pecuniary interest for construction projects.

Compliance

Our audit identified the following areas where the department can improve compliance with laws, regulations, and policies.

Coal Severance Tax Interest

The department transferred $2,069,366 more to the Public Employees' Retirement Administration from the General Fund than authorized by state law.

Beginning in fiscal year 2013-14, §15-35-108(9)(b), MCA, appropriates from the general fund up to $21 million of coal severance tax fund interest income deposited in the General Fund for transfer to the Public Employees' Retirement Administration (PERA) after taking into account other transfers required by the statute. When completing the transfers for fiscal year 2013-14, the department transferred $21 million, even though the residual amount from the coal tax interest income deposit after transfers to other funds was less than $21 million. As a result, the department transferred $2,069,366 in excess of the amount allowed under law. The department identified and corrected its error after fiscal year-end and brought it to our attention. While these funds were held by PERA, the Coal Severance Tax fund lost $654 in interest earnings.

RECOMMENDATION #11

We recommend the department:

A. *Recover $654 in lost coal severance tax interest from Public Employees' Retirement Administration, and*

B. *Consider the impact of all transfers of coal severance tax interest income when calculating the amount available to Public Employees' Retirement Administration, in compliance with state law.*

Subrecipient Monitoring

The department is not adequately monitoring county use of federally funded Schools & Roads – Grants to States.

In fiscal year 2013-14, the department received and distributed over $18 million in federal funds for the Schools & Roads – Grants to States (Schools & Roads) program. Amounts payable to individual counties are calculated by the federal government.

Federal regulations require the department to maintain internal control over its Schools & Roads program that provide reasonable assurance that the program operates in compliance with laws and regulations.

As the recipient and payer of these federal funds, the department is considered a pass-through entity and is therefore responsible for monitoring the counties' use of the funds. This is commonly known as "during the award" monitoring. Federal regulations also direct the department to require audits, as applicable under federal guidelines, to evaluate audit results, to issue management decisions on findings, and to conduct follow-up on audit findings.

During the audit, we noted the department does not conduct "during the award" monitoring of the counties' use of the federal funds, and two audit reports were received well after the 9-month time requirement for receipt of the audit reports. We also noted the department does not follow-up to ensure proper corrective action of findings included in the county audit reports. After funds are distributed, the department requires counties to provide a receipt indicating their intent for future use of the federal funds. The department stated they rely on county auditors to follow-up on audit recommendations, citing the lack of federal administrative funds for the award as the basis for their process.

Tracking the counties' intended use of funds and waiting to review the results of future audit reports does not ensure funds are properly used or findings are adequately addressed by the counties.

Recommendation #12

We recommend the department implement procedures to:

A. *Conduct "during the award monitoring" to ensure subrecipients use federal Schools & Roads – Grants to States funds for allowable purposes, and*

B. *Issue management decisions and conduct follow-up on audit findings of subrecipients of federal Schools & Roads – Grants to States funds, as required by federal regulations.*

Internal Service Funds

Fees are not commensurate with costs for four of the department's internal service funds as required by state law.

In accordance with §17-8-101(6), MCA, which requires us to audit and report on internal service funds, we reviewed the rates charged and the fund equity of the department's internal service funds for the two fiscal years ended June 30, 2014. We found fees for the department's Intergovernmental Training, HR Info Services, Continuity Emergency Management, and Central Stores internal service funds were not commensurate with costs during fiscal year 2013-14, or fund balance was not reasonable at the end of fiscal year 2013-14.

- **Intergovernmental Training** – Fees are not commensurate with costs because working capital exceeds 60 days of expenditure activity by $34,500 and there was no observed revenue or expenditure adjustments to address excess working capital. Department staff indicated two of three employees retired in fiscal year 2012-13, resulting in lower personal services expenditures because the new employees are paid at a lower rate than those who retired. In addition, the program relocated to a new building which resulted in rent savings. The program is also working on expanding on the classes they offer, which has resulted in increased class participation and increased revenues. A combination of these factors resulted in the excess working capital. The department did not reduce rates during the year to compensate for these factors.
- **HR Info Services** – Fees are not commensurate with costs because working capital exceeds 60 days of expenditure activity by $262,189. Per department staff, information technology costs for this fund have decreased but no rate adjustment was made. According to department staff, they will not seek a rate increase for the next biennium.
- **Continuity Emergency Management** – This internal service fund was new in fiscal year 2013-14, established by the department to separately account for costs associated with providing support for continuity of government, emergency management, and homeland security to the state. The fund was created as the result of a re-organization, and funding for relevant positions was moved from other operations with the department. For this new fund, expenditures exceeded revenues by over $57,000, resulting in negative working capital and negative fund balance, which means fees are not commensurate with costs and fund balance is not reasonable. Department staff indicate this was due to $58,560 in compensated absence expenditures recorded at fiscal year-end. In calculating the amount expenditures exceeded revenues, we excluded the noncurrent portion totaling $30,234 of compensated absence expenditures. Although the program was funded with the original rates set for the activity, these rates were not sufficient to cover expenditures.
- **Central Stores –** Fund balance is not reasonable because it exceeds 60 days of expenditure activity by $353,719 after taking into consideration the balance

attributable to nonspendable assets. As a result of the legislature eliminating the majority of the Central Stores program, each revenues and expenditures decreased by over 95 percent between fiscal years 2012-13 and 2013-14. As required by SB-410, the department transferred $500,000 in cash to the general fund in fiscal year 2013-14. Throughout the year the department maintained a cash balance exceeding $500,000, attributing for the majority of excess fund balance and resulting in fees not commensurate with costs for fiscal year 2013-14.

While the department monitors its internal service funds by holding quarterly budget reviews to discuss revenues, project expenses, and capital issues, the department has not made rate adjustments or other decisions to prevent noncompliance with state law.

Recommendation #13

We recommend the department adjust rates or reduce expenditures to ensure fees are commensurate with costs for Intergovernmental Training, Continuity Emergency Management, Central Stores, and HR Info Services, as required by state law.

Independent Auditor's Report and Department Financial Schedules

LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Deborah F. Butler, Legal Counsel

Deputy Legislative Auditors:
Cindy Jorgenson
Angus Maciver

Independent Auditor's Report

The Legislative Audit Committee
of the Montana State Legislature:

Introduction

We have audited the accompanying Schedules of Changes in Fund Equity & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Administration for each of the fiscal years ended June 30, 2014, and 2013, and the related notes to the financial schedules.

Management's Responsibility for the Financial Schedules

Management is responsible for the preparation and fair presentation of these financial schedules in accordance with the regulatory format prescribed by the Legislative Audit Committee, based on the transactions posted to the state's accounting system without adjustment; this responsibility includes recording transactions in accordance with state accounting policy; and designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of the financial schedules that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial schedules based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the department's preparation and fair presentation of the financial schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the department's internal control, and accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as the overall presentation of the financial schedules.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles

As described in Note 1, the financial schedules are prepared from the transactions posted to the state's primary accounting system without adjustment, in the regulatory format prescribed by the Legislative Audit Committee. This is a basis of accounting other than accounting principles generally accepted in the United States of America. The financial schedules are not intended to, and do not, report assets, liabilities and cash flows.

The effects on the financial schedules of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinions on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles" paragraph, the financial schedules referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Department as of June 30, 2014, and June 30, 2013, or changes in financial position or cash flows for the years then ended.

Unmodified Opinions on Regulatory Basis of Accounting

In our opinion, the Schedules of Changes in Fund Equity & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out, presents fairly, in all material respects, the results of operations and changes in fund equity and property held in trust of the Department of Administration for each of the fiscal years ended June 30, 2014, and 2013, in conformity with the basis of accounting described in Note 1.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

September 10, 2014

DEPARTMENT OF ADMINISTRATION
SCHEDULE OF CHANGES IN FUND EQUITY & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Agency Fund	Private Purpose Trust Fund	Pension Trust Fund	Unexpended Plant Fund	Renewal & Replacement Fund
FUND EQUITY: July 1, 2013	$ 649,521,427	$ 28,747,844	$ (125,593)	$ 416,759	$ 35,542,048	$ 3,184,967	$ 77,007,006	$ 0	$ 192,238	$ 6,216,265	$ (159,237)	$ (778,232)
PROPERTY HELD IN TRUST: July 1, 2013								$ 7,405,760				
ADDITIONS												
Budgeted Revenues & Transfers-In	27,910,299	8,152,856	19,709,582		73,679,238	61,864,334	246,698,792					
Nonbudgeted Revenues & Transfers-In	841,952	2,923,892	552,304	27,000,896	5,103	12,383	968,324		1,218,630	3,209,900		
Prior Year Revenues & Transfers-In Adjustments	(77,628)	38,978				924	465,715					
Direct Entries to Fund Equity	88,951,124	22,378,347	1,265,921		6,272,624	91,409	(955,970)				13,730,672	1,746,930
Additions to Property Held in Trust								896,677,492				
Total Additions	117,625,748	33,494,074	21,527,806	27,000,896	79,956,965	61,969,050	247,176,861	896,677,492	1,218,630	3,209,900	13,730,672	1,746,930
REDUCTIONS												
Budgeted Expenditures & Transfers-Out	104,403,743	37,637,594	21,330,562		15,441,405	49,053,214	263,807,948				13,628,085	2,366,443
Nonbudgeted Expenditures & Transfers-Out	136,310,212	1,787,966	104,721	26,867,257	9,458,297	13,338,833	11,525,101		1,211,023	2,353,647		
Prior Year Expenditures & Transfers-Out Adjustments	(2,923)	(860,148)			(311)	52,794	(210,979)					14,934
Reductions in Property Held in Trust								899,749,099				
Total Reductions	240,711,031	38,565,412	21,435,282	26,867,257	24,899,391	62,444,842	275,122,070	899,749,099	1,211,023	2,353,647	13,628,085	2,381,377
FUND EQUITY: June 30, 2014	$ 526,436,143	$ 23,676,506	$ (33,069)	$ 550,397	$ 90,599,622	$ 2,709,175	$ 49,061,797	$ 0	$ 199,845	$ 7,072,519	$ (56,650)	$ (1,412,680)
PROPERTY HELD IN TRUST: June 30, 2014								$ 4,334,153				

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-9.

DEPARTMENT OF ADMINISTRATION
SCHEDULE OF CHANGES IN FUND EQUITY & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Agency Fund	Private Purpose Trust Fund	Pension Trust Fund	Unexpended Plant Fund	Renewal & Replacement Fund
FUND EQUITY: July 1, 2012	$ 538,151,783	$ 23,496,541	$ 61,724	$ 467,592	$ 41,594,176	$ 3,132,057	$ 57,749,894	$ 0	$ 84,664	$ 4,955,745	$ (111,876)	$ (1,447,258)
PROPERTY HELD IN TRUST: July 1, 2012								$ 4,545,787				
ADDITIONS												
Budgeted Revenues & Transfers-In	30,090,766	7,342,060	20,318,373	0	7,252,050	65,230,762	254,675,787					
Nonbudgeted Revenues & Transfers-In	2,017,426	1,992,766	897,557	19,661,819	50,099	2,882	(406,674)		1,139,749	3,297,867		
Prior Year Revenues & Transfers-In Adjustments	(134,127)	(1,566)	38,387		1	141	(114,706)			6,998		
Direct Entries to Fund Equity	188,481,425	29,522,302	617,212		3,029,197	150,660	21,356				2,802,506	5,688,030
Additions to Property Held in Trust								869,351,829				
Total Additions	220,455,491	38,855,562	21,871,530	19,661,819	10,331,347	65,384,444	254,175,764	869,351,829	1,139,749	3,304,865	2,802,506	5,688,030
REDUCTIONS												
Budgeted Expenditures & Transfers-Out	56,668,707	33,573,325	21,934,099		12,392,636	51,290,362	231,936,830				2,849,868	5,019,004
Nonbudgeted Expenditures & Transfers-Out	52,392,986	618,191	124,748	19,712,652	3,990,839	14,061,045	3,146,757		1,032,175	2,044,344		
Prior Year Expenditures & Transfers-Out Adjustr	24,154	(587,257)				(19,873)	(164,934)					
Reductions in Property Held in Trust								866,491,856				
Total Reductions	109,085,847	33,604,258	22,058,847	19,712,652	16,383,475	65,331,534	234,918,652	866,491,856	1,032,175	2,044,344	2,849,868	5,019,004
FUND EQUITY: June 30, 2013	$ 649,521,427	$ 28,747,844	$ (125,593)	$ 416,759	$ 35,542,048	$ 3,184,967	$ 77,007,006	$ 0	$ 192,238	$ 6,216,265	$ (159,237)	$ (778,232)
PROPERTY HELD IN TRUST: June 30, 2013								$ 7,405,760				

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-9.

DEPARTMENT OF ADMINISTRATION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Private Purpose Trust Fund	Pension Trust Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS										
Licenses and Permits		$ 1,385,061				$ 9,175				$ 1,394,236
Taxes			$ 88							88
Charges for Services	$ 7,965,011	3,967,149			$ 423,756	8,096,670	$ 241,571,600			262,024,185
Investment Earnings	3,370,526	13,021	117	$	20,576	6,802	1,006,601		$ 530,587	4,948,229
Fines and Forfeits	4,094,408					40,996	26,430			4,161,833
Capital Contributions						609,317	33,132			642,448
Sale of Documents, Merchandise and Property		192,705				53,091,265	28,798			53,312,768
Rentals, Leases and Royalties	44									44
Contributions and Premiums									2,679,313	2,679,313
Grants, Contracts, and Donations		291,208				14,333	66,666	$ 1,218,630		1,590,837
Transfers-in	12,909,899	3,040,238	765,270	19,708,775	73,240,010		1,773,167			111,437,359
Bond Proceeds				512,121						512,121
Capital Asset Sale Proceeds	26,596					7,030	7,799			41,425
Proceeds of Refunding Bonds				6,780,000						6,780,000
Miscellaneous	138,298	2,226,345				2,054	2,127,044			4,493,741
Federal	169,842		19,496,411				1,491,593			21,157,846
Total Revenues & Transfers-In	28,674,623	11,115,726	20,261,885	27,000,896	73,684,341	61,877,641	248,132,831	1,218,630	3,209,900	475,176,474
Less: Nonbudgeted Revenues & Transfers-In	841,952	2,923,892	552,304	27,000,896	5,103	12,383	968,324	1,218,630	3,209,900	36,733,384
Prior Year Revenues & Transfers-In Adjustments	(77,628)	38,978				924	465,715			427,989
Actual Budgeted Revenues & Transfers-In	27,910,299	8,152,856	19,709,582	0	73,679,238	61,864,334	246,698,792	0	0	438,015,101
Estimated Revenues & Transfers-In	32,748,946	10,644,017	24,043,513		75,493,318	78,706,310	253,002,856			474,638,960
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ (4,838,647)	$ (2,491,161)	$ (4,333,931)	$ 0	$ (1,814,080)	$ (16,841,976)	$ (6,304,063)	$ 0	$ 0	$ (36,623,859)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS										
Licenses and Permits		$ 620,061				$ (5,825)				$ 614,236
Taxes	$ (1)									(1)
Charges for Services	(150,848)	(1,326,958)			202,411	(139,987)	$ (7,315,775)			(8,731,157)
Investment Earnings	936,668	(10,014)	$ (283)		(9,448)	(17,362)	(442,816)			456,745
Monetary Settlements							(20,000)			(20,000)
Fines and Forfeits	(331,148)					18,496				(312,653)
Capital Contributions						217,105	(68)			217,037
Sale of Documents, Merchandise and Property		17,705				(16,908,735)	(21,163)			(16,912,193)
Rentals, Leases and Royalties	21									21
Grants, Contracts, and Donations	0	(766,314)				(667)				(766,981)
Transfers-in	(2,185,435)	(1,962,907)	(1,345,619)		$ (2,007,043)		751,511			(6,749,493)
Capital Asset Sale Proceeds	(5,405)									(5,405)
Miscellaneous	(2,704,721)	937,238				(5,000)	244,248			(1,528,236)
Federal	(397,778)	29	(2,988,030)				500,000			(2,885,778)
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ (4,838,647)	$ (2,491,161)	$ (4,333,931)	$ 0	$ (1,814,080)	$ (16,841,976)	$ (6,304,063)	$ 0	$ 0	$ (36,623,859)

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Additional information is provided in the notes to the financial schedules beginning on page A-9.

DEPARTMENT OF ADMINISTRATION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Private Purpose Trust Fund	Pension Trust Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS										
Licenses and Permits		$ 993,487				$ 11,740				$ 1,005,227
Taxes			$ 92							92
Charges for Services	$ 7,565,147	4,628,329			351,578	7,929,188	$ 232,763,348			253,237,589
Investment Earnings	4,085,078	24,607	461	$ 330	37,432	11,371	519,953		$ 168,579	4,847,810
Monetary Settlements					47,730					47,730
Fines and Forfeits	4,127,455					32,484	54,765			4,214,703
Capital Contributions						444,620				444,620
Sale of Documents, Merchandise and Property		179,417				56,802,819	4,681,333			61,663,569
Rentals, Leases and Royalties	245									245
Contributions and Premiums									3,136,286	3,136,286
Grants, Contracts, and Donations	8,012	703,714					279	$ 1,139,749		1,851,754
Transfers-in	15,310,448	2,065,193	897,464	19,661,489	$ 6,865,410		13,613,142			58,413,145
Capital Asset Sale Proceeds	519,763						5,525			525,288
Miscellaneous	132,252	738,513				1,563	1,010,187			1,882,515
Federal	225,666		20,356,301				1,505,877			22,087,844
Total Revenues & Transfers-In	31,974,065	9,333,260	21,254,317	19,661,819	7,302,149	65,233,784	254,154,408	1,139,749	3,304,865	413,358,417
Less: Nonbudgeted Revenues & Transfers-In	2,017,426	1,992,766	897,557	19,661,819	50,099	2,882	(406,674)	1,139,749	3,297,867	28,653,492
Prior Year Revenues & Transfers-In Adjustments	(134,127)	(1,566)	38,387		1	141	(114,706)		6,998	(204,873)
Actual Budgeted Revenues & Transfers-In	30,090,766	7,342,060	20,318,373	0	7,252,050	65,230,762	254,675,787	0	0	384,909,798
Estimated Revenues & Transfers-In	44,502,831	10,960,766	28,807,817		18,689,354	59,248,342	284,161,905			446,371,014
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ (14,412,065)	$ (3,618,706)	$ (8,489,444)	$ 0	$ (11,437,304)	$ 5,982,420	$ (29,486,117)	$ 0	$ 0	$ (61,461,216)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS										
Licenses and Permits		$ 471,887				$ 1,740				$ 473,627
Taxes	$ (10,890)									(10,890)
Charges for Services	(861,881)	(382,812)			195,578	(2,198,795)	$ (40,956,805)			(44,204,715)
Investment Earnings	(13,645,370)	(12,993)	$ (41)		(82,667)	(15,959)	(815,094)			(14,572,125)
Monetary Settlements					2,200					2,200
Fines and Forfeits	(607,632)					16,984				(590,649)
Capital Contributions						(20,380)				(20,380)
Sale of Documents, Merchandise and Property		4,417				8,202,819	(318,667)			7,888,569
Rentals, Leases and Royalties	45									45
Grants, Contracts, and Donations		(1,534,428)								(1,534,428)
Transfers-in	1,956,084	(1,882,608)	(2,240,759)		$ (11,552,415)		12,947,518			(772,180)
Capital Asset Sale Proceeds	52,262									52,262
Miscellaneous	(1,156,728)	(282,168)				(3,988)	(248,945)			(1,691,829)
Federal	(137,954)	(1)	(6,248,645)				(94,123)			(6,480,723)
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ (14,412,065)	$ (3,618,706)	$ (8,489,444)	$ 0	$ (11,437,304)	$ 5,982,420	$ (29,486,117)	$ 0	$ 0	$ (61,461,216)

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DEPARTMENT OF ADMINISTRATION
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Architecture & Engineering Division	Banking & Financial Division	Corrections	Departments & Agencies	Director's Office	DPHHS	General Services Division	Health Care & Benefits Division	Information Tech Services Division	Montana State Lottery	Risk Management & Tort Defense	State Financial Services Division	State Human Resources Division	Montana Tax Appeal Board	University System	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT																
Personal Services																
Salaries	$ 978,395	$ 2,099,953			$ 1,575,083		$ 3,210,957	$ 1,246,813	$ 11,635,225	$ 1,435,869	$ 798,220	$ 2,450,095	$ 2,262,862	$ 289,376		$ 27,982,849
Other Compensation							264			1,000				5,355		6,619
Employee Benefits	301,948	632,971			477,693		1,264,973	405,569	3,537,708	524,736	206,741	798,373	723,471	93,046		8,967,228
Personal Services-Other					57,536		(67,312)	4,199	144,162	26,759	13,768	(29,340)	25,943			175,715
Total	1,280,343	2,732,925			2,110,312		4,408,882	1,656,581	15,317,095	1,988,364	1,018,728	3,219,128	3,012,276	387,777		37,132,411
Operating Expenses																
Other Services	263,864	207,745	$ 3,460		270,193		3,654,886	12,194,399	2,117,600	6,479,402	6,667,224	832,391	903,305	23,530		33,614,539
Supplies & Materials	28,548	34,056			63,117		477,316	183,419	3,283,835	215,968	45,481	141,288	177,523	19,481		4,670,032
Communications	30,179	40,812			35,186		4,305,437	149,299	7,019,353	636,437	25,485	355,386	44,817	28,759		12,671,151
Travel	34,368	260,206			16,240		21,736	18,920	178,577	39,691	24,684	30,953	36,999	13,938		676,313
Rent	54,276	156,689			104,197		1,497,622	341,715	10,645,093	602,993	69,631	136,618	142,914	39,867		13,791,614
Utilities							2,052,588		115,488	18,966	7,070					2,194,112
Repair & Maintenance	4,592	366			47,137		1,369,566	39,344	1,924,020	14,999	4,059	799,830	358,103	817		4,562,832
Other Expenses	124,054	161,790			216,617		1,583,417	743,749	3,487,691	30,460,628	354,104	2,521,547	404,537	35,448		40,097,042
Goods Purchased For Resale							3,595,671			893,614						4,489,285
Total	539,881	861,664	3,460		752,687		18,558,239	13,670,845	28,771,658	39,362,698	7,197,737	4,818,013	2,068,198	161,839		116,766,919
Equipment & Intangible Assets																
Equipment							71,494		(1,290,516)						$ 47,840	(1,171,182)
Capital leases - equipment										14,333						14,333
Total							71,494		(1,290,516)	14,333					47,840	(1,156,849)
Capital Outlay																
Land & Interest In Land				$ 389,156												389,156
Buildings			1,252,485	6,171,136		$ 1,398,336	456		1,485,638						21,135,056	31,443,107
Other Improvements										(14,333)						(14,333)
Total			1,252,485	6,560,293		1,398,336	456		1,485,638	(14,333)					21,135,056	31,817,930
Local Assistance																
From State Sources					43,807,567									6,374		43,813,941
From Federal Sources					30,211,622											30,211,622
Total					74,019,189									6,374		74,025,564
Grants																
From State Sources									13,498,554							13,498,554
Grant To Governmental Entities											520,112					520,112
Total									13,498,554		520,112					14,018,666
Benefits & Claims																
From State Sources								173,646,761								173,646,761
Insurance Payments								7,463,200			6,876,135					14,339,335
Other Financing Uses/Deduction					7,190,320											7,190,320
Total					7,190,320			181,109,961			6,876,135					195,176,416
Transfers-out																
Fund transfers	1,700,000			6,695,303	180,245,492	1,378	976,625	924	7,307,442	12,090,583	1,201,511	1,211,023			1,018,894	212,449,175
Intra-Entity Expense					8,580,682											8,580,682
Total	1,700,000			6,695,303	188,826,174	1,378	976,625	924	7,307,442	12,090,583	1,201,511	1,211,023			1,018,894	221,029,857
Debt Service																
Bonds					19,430,837											19,430,837
Loans							18,811									18,811
Capital Leases							19,351			9,510						28,861
Total					19,430,837		38,162			9,510						19,478,509
Other Post Employment Benefits																
Other Post Employment Benefits					70,229		232,193	78,479	596,520	108,929	60,836	95,738	87,071			1,329,996
Total					70,229		232,193	78,479	596,520	108,929	60,836	95,738	87,071			1,329,996
Total Expenditures & Transfers-Out	$ 3,520,223	$ 3,594,589	$ 1,255,944	$ 13,255,596	$ 292,399,749	$ 1,399,714	$ 24,286,052	$ 196,516,790	$ 65,686,389	$ 53,560,084	$ 16,875,059	$ 9,343,902	$ 5,167,545	$ 555,991	$ 22,201,791	$ 709,619,419
EXPENDITURES & TRANSFERS-OUT BY FUND																
General Fund				$ 39,629	$ 232,506,198	$ (6,634)	$ 2,105,177		$ 458,361			$ 3,525,189	$ 1,527,120	$ 555,991		$ 240,711,031
State Special Revenue Fund	$ 1,820,223	$ 3,594,589	$ 13,084	4,410,972	11,516,519	237,831	953,894		14,600,068	$ 161,570	$ 1,201,511		98		$ 55,053	38,565,412
Federal Special Revenue Fund				479,922	18,887,526				1,046,467			4,472			1,016,894	21,435,282
Debt Service Fund					26,867,257											26,867,257
Capital Projects Fund	1,700,000		337,241	8,241,874	389,157	1,168,516			7,942,223						5,120,381	24,899,391
Enterprise Fund			244,295				1,025,123	$ 7,336,988		53,398,514		439,922				62,444,842
Internal Service Fund			661,325	83,200	2,233,090		20,201,857	186,826,155	41,639,270		15,673,548	4,163,296	3,640,327			275,122,070
Unexpended Plant Fund															13,628,085	13,628,085
Renewal & Replacement Fund															2,381,377	2,381,377
Private Purpose Trust Fund												1,211,023				1,211,023
Pension Trust Fund								2,353,647								2,353,647
Total Expenditures & Transfers-Out	3,520,223	3,594,589	1,255,944	13,255,596	292,399,749	1,399,714	24,286,052	196,516,790	65,686,389	53,560,084	16,875,059	9,343,902	5,167,545	555,991	22,201,791	709,619,419
Less: Nonbudgeted Expenditures & Transfers-Out	1,698,244	(3,817)	2,135	2,123,297	163,434,278		1,594,061	9,897,998	9,828,878	12,705,789	491,322	926,877	258,769	(774)		202,957,057
Prior Year Expenditures & Transfers-Out Adjustments	(40,196)	(82)	0		(500)	(8,703)	(115,803)	42,193	(816,500)	2,234	63,450	3,665	(151,370)	45	14,934	(1,006,632)
Actual Budgeted Expenditures & Transfers-Out	1,862,175	3,598,488	1,253,810	11,132,299	128,965,971	1,408,417	22,807,793	186,576,599	56,674,012	40,852,062	16,320,286	8,413,360	5,060,146	556,720	22,186,857	507,668,994
Budget Authority	2,036,524	3,817,123	7,138,777	144,973,261	134,795,041	42,637,901	23,526,716	194,098,283	105,487,428	44,050,863	19,496,992	8,791,230	5,344,826	593,057	268,675,596	1,005,463,617
Unspent Budget Authority	$ 174,349	$ 218,635	$ 5,884,967	$ 133,840,962	$ 5,829,070	$ 41,229,484	$ 718,923	$ 7,521,684	$ 48,813,416	$ 3,198,801	$ 3,176,706	$ 377,870	$ 284,680	$ 36,337	$ 246,488,739	$ 497,794,623
UNSPENT BUDGET AUTHORITY BY FUND																
General Fund				$ 61,041	$ 3,807,632		$ 144,547		$ 3,561			$ 85,600	$ 38,895	$ 36,337		$ 4,177,613
State Special Revenue Fund	$ 174,349	$ 218,635	$ 136,397	45,036,925	(5,302)	7,372,250	4,830		3,470,862	$ 8,430	$ 148,489				333,559	56,899,423
Federal Special Revenue Fund			1,000,000	17,235,700	1,839,552	12,075,328			35,048,291			133			2,900,450	70,099,454
Capital Projects Fund			3,407,481	71,257,296	369	21,781,907			9,914,737						59,919,005	166,280,795
Enterprise Fund			646,840				101,069	$ 39,198		3,190,371		3,446				3,980,924
Internal Service Fund			694,250	250,000	186,820		468,476	7,482,486	375,965		3,028,217	288,692	245,785			13,020,690
Unexpended Plant Fund															163,449,387	163,449,387
Renewal & Replacement Fund															19,886,338	19,886,338
Unspent Budget Authority	$ 174,349	$ 218,635	$ 5,884,967	$ 133,840,962	$ 5,829,070	$ 41,229,484	$ 718,923	$ 7,521,684	$ 48,813,416	$ 3,198,801	$ 3,176,706	$ 377,870	$ 284,680	$ 36,337	$ 246,488,739	$ 497,794,623

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DEPARTMENT OF ADMINISTRATION
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Architecture & Engineering Division	Banking & Financial Division	Corrections	Departments & Agencies	Director's Office	DPHHS	General Services Division	Governor-Elect Program	Health Care & Benefits Division	Information Tech Services Division	Montana State Lottery	Risk Management & Tort Defense	State Financial Services Division	State Human Resources Division	Montana Tax Appeal Board	University System	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT																	
Personal Services																	
Salaries	$ 989,702	$ 1,921,373	$	$	$ 1,125,562	$	$ 3,169,561	$ 35,077	$ 1,254,748	$ 11,694,728	$ 1,369,431	$ 712,752	$ 2,198,786	$ 2,399,430	$ 310,252	$	$ 27,181,402
Other Compensation	0										1,000				8,955		9,955
Employee Benefits	301,409	567,185			342,401		1,276,672	6,415	394,887	3,420,228	497,670	190,590	705,097	740,639	92,200		8,535,391
Personal Services-Other	0				(23,713)		10,344		4,496	(106,180)	(21,440)	57,272	87,930	(45,725)			(37,016)
Total	1,291,111	2,488,558			1,444,250		4,456,577	41,492	1,654,131	15,008,775	1,846,661	960,614	2,991,813	3,094,344	411,406		35,689,733
Operating Expenses																	
Other Services	38,409	380,567			123,290		3,026,540	1,899	9,711,209	2,832,749	7,034,180	5,926,167	758,360	1,001,415	15,146		30,849,930
Supplies & Materials	22,411	35,965			19,170		436,476	643	38,539	1,061,522	288,225	240,585	87,602	168,502	8,859		2,408,500
Communications	25,409	42,459			19,273		4,146,427	626	92,119	6,917,437	692,426	21,986	371,544	47,054	6,163		12,382,925
Travel	36,510	260,171			8,690		11,442	3,820	22,244	126,381	50,363	17,721	20,265	34,214	9,745		601,565
Rent	54,744	154,500			33,708		1,548,002		274,244	8,975,667	144,798	67,075	136,919	133,546	20,042		11,543,244
Utilities							2,074,670			112,479	17,737	6,282					2,211,168
Repair & Maintenance	4,564	738			3,099		1,281,678		10,744	1,683,046	24,459	4,975	857,125	457,939	1,276		4,329,644
Other Expenses	62,633	148,168	45,002	345,268	148,715	1,344	2,468,155	1,521	734,720	3,402,950	33,027,358	261,807	2,519,271	332,984	20,157		43,520,054
Goods Purchased For Resale							7,377,117				963,889						8,341,006
Total	244,680	1,022,568	45,002	345,268	355,946	1,344	22,370,508	8,508	10,883,818	25,112,230	42,243,437	6,546,598	4,751,088	2,175,653	81,388		116,188,035
Equipment & Intangible Assets																	
Equipment							(28,676)			(403,237)						15,019	(416,894)
Total							(28,676)			(403,237)						15,019	(416,894)
Capital Outlay																	
Land & Interest in Land				66													66
Buildings			695,632	6,487,009		2,424,135	57,520			107,060						11,651,156	21,422,511
Other Improvements							(57,520)										(57,520)
Total			695,632	6,487,075		2,424,135	0			107,060						11,651,156	21,365,057
Local Assistance																	
From State Sources					18,462,267										8,761		18,471,028
From Federal Sources					30,651,915												30,651,915
From other sources										(586,503)							(586,503)
Total					49,114,181					(586,503)					8,761		48,536,440
Grants																	
From State Sources										10,732,623							10,732,623
From Federal Sources										88,614							88,614
Total										10,821,237							10,821,237
Benefits & Claims																	
From State Sources									144,030,969								144,030,969
Insurance Payments									2,740,000			3,507,416					6,247,416
Total									146,770,969			3,507,416					150,278,385
Transfers-out																	
Fund transfers	1,850,123	123		6,039,741	58,470,257	187,043	1,318,334		302	1,190,983	13,083,796	13,563,564	1,032,297	49,701		1,279,400	98,065,663
Intra-Entity Expense					10,640,749		80,043										10,720,792
Total	1,850,123	123		6,039,741	69,111,006	187,043	1,398,377		302	1,190,983	13,083,796	13,563,564	1,032,297	49,701		1,279,400	108,786,455
Debt Service																	
Bonds					19,477,528												19,477,528
Loans							33,714										33,714
Capital Leases							25,919				13,659		43				39,621
Total					19,477,528		59,632				13,659		43				19,550,862
Other Post Employment Benefits																	
Other Post Employment Benefits					58,876		233,399		73,290	557,192	101,836	51,680	85,048	80,024			1,241,345
Total					58,876		233,399		73,290	557,192	101,836	51,680	85,048	80,024			1,241,345
Total Expenditures & Transfers-Out	$ 3,385,913	$ 3,511,249	740,634	12,872,084	$ 139,561,786	2,612,522	$ 28,489,817	$ 50,000	$ 159,382,511	$ 51,807,738	$ 57,289,388	$ 24,629,872	$ 8,860,289	$ 5,399,721	$ 501,555	12,945,575	$ 512,040,655
EXPENDITURES & TRANSFERS-OUT BY FUND																	
General Fund			6,328	162,391	$ 87,111,831	107,900	$ 2,137,331	$ 50,000		$ 429,026		$ 13,400,000	$ 3,436,049	$ 1,743,436	$ 501,555		$ 109,085,847
State Special Revenue Fund	$ 1,535,913	$ 3,511,249	29,332	4,322,766	10,774,473	606,180	591,729			11,586,107	$ 150,016	163,564		2,731		330,197	33,604,258
Federal Special Revenue Fund				28,238	20,004,795	365,843				726,369			947			932,656	22,058,847
Debt Service Fund					19,712,652												19,712,652
Capital Projects Fund	1,850,000		679,612	8,013,421	388,276	1,531,255				107,060						3,813,851	16,383,475
Enterprise Fund			(19,640)	90,571			848,000		$ 6,848,733		57,139,372		424,497				65,331,534
Internal Service Fund			45,002	254,697	1,569,759	1,344	24,912,757		150,489,433	38,959,176		11,066,308	3,966,622	3,653,554			234,918,652
Private Purpose Trust Fund													1,032,175				1,032,175
Pension Trust Fund									2,044,344								2,044,344
Unexpended Plant Fund																2,849,868	2,849,868
Renewal & Replacement Fund																5,019,004	5,019,004
Total Expenditures & Transfers-Out	3,385,913	3,511,249	740,634	12,872,084	139,561,786	2,612,522	28,489,817	50,000	159,382,511	51,807,738	57,289,388	24,629,872	8,860,289	5,399,721	501,555	12,945,575	512,040,655
Less: Nonbudgeted Expenditures & Transfers-Out	1,849,132	(1,622)		2,140,839	72,270,159		2,411,867		4,858,040	1,131,425	13,523,510	(2,436,870)	1,163,277	214,364	(384)		97,123,736
Prior Year Expenditures & Transfers-Out Adjustments	(797)	43	(19,640)		4,006		1,654		851	(805,616)	(233)	63,207	235	8,330	50		(747,911)
Actual Budgeted Expenditures & Transfers-Out	1,537,578	3,512,828	760,274	10,731,245	67,287,622	2,612,522	26,076,296	50,000	154,523,620	51,481,928	43,766,111	27,003,536	7,696,777	5,177,028	501,889	12,945,575	415,664,831
Budget Authority	1,947,577	3,673,761	5,181,774	98,869,726	76,398,532	43,903,008	29,839,235	50,000	182,747,249	91,898,171	52,361,611	29,271,543	8,861,814	5,584,134	583,731	175,116,516	806,288,381
Unspent Budget Authority	$ 409,999	$ 160,933	4,421,500	88,138,481	$ 9,110,910	41,290,486	$ 3,762,939	$ 0	$ 28,223,629	$ 40,416,242	$ 8,595,500	$ 2,268,007	$ 1,165,037	$ 407,106	$ 81,842	162,170,941	$ 390,623,551
UNSPENT BUDGET AUTHORITY BY FUND																	
General Fund				61,041	$ 3,772,793		$ 5,205						$ 199,873	$ 152,615	$ 81,842		$ 4,273,369
State Special Revenue Fund	$ 409,999	$ 160,933	149,575	38,768,265	431,111	7,521,839	234,233			$ 729,134	$ 19,984	$ 452,482				350,539	49,228,094
Federal Special Revenue Fund			1,000,000	1,965,623	4,900,847	12,075,328				35,565,547			7,948			3,308,103	58,823,396
Capital Projects Fund			2,287,351	47,093,552	57	21,693,319				2,680,031						9,401,197	83,155,507
Enterprise Fund			289,000				33,412		$ 2,401,196		8,575,516		12,405				11,311,529
Internal Service Fund			695,575	250,000	6,102		3,490,089		25,822,433	1,441,530		1,815,525	944,811	254,491			34,720,554
Unexpended Plant Fund																132,542,458	132,542,458
Renewal & Replacement Fund																16,568,643	16,568,643
Unspent Budget Authority	$ 409,999	$ 160,933	4,421,500	88,138,481	$ 9,110,910	41,290,486	$ 3,762,939	$ 0	$ 28,223,629	$ 40,416,242	$ 8,595,500	$ 2,268,007	$ 1,165,037	$ 407,106	$ 81,842	162,170,941	$ 390,623,551

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-9.

Department of Administration
Notes to the Financial Schedules
For the Two Fiscal Years Ended June 30, 2014

1. Summary of Significant Accounting Policies

Basis of Accounting

The department uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue, Federal Special Revenue, Capital Projects, and Debt Service). In applying the modified accrual basis, the department records:

- Revenues when it receives cash or when receipts are realizable, measurable, earned, and available to pay current period liabilities.
- Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the department to record the cost of employees' annual and sick leave when used or paid.

The department uses accrual basis accounting for its Proprietary (Enterprise and Internal Service) and Fiduciary (Private-Purpose Trust, Pension and Other Employee Benefit Trust, and Agency) fund categories. Under the accrual basis, as defined by state accounting policy, the department records revenues in the accounting period when realizable, measurable, and earned, and records expenses in the period incurred when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the department receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format was adopted by the Legislative Audit Committee. The financial schedules were prepared from the transactions posted to the state's accounting system without adjustment.

In order to reflect the total department operations, the financial schedules present the combined operations of two separate business units, Department of Administration and Long-Range Building, identified on the state's accounting system.

The department uses the following funds:

Governmental Fund Category

- **General Fund** – to account for all financial resources except those required to be accounted for in another fund.
- **State Special Revenue Fund** – to account for proceeds of specific revenue sources (other than private-purpose trusts or major capital projects) that are legally restricted to expenditures for specific state program purposes. Department State Special Revenue Funds include Architecture and Engineering Construction, Banking and Financial Institutions Division, 911 Telecommunications Program, and Mineral Impact.
- **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Department Federal Special Revenue Funds include Homeland Security Grant, State Broadband and Data Development, Federal Forest Reserve and Public Safety Communication funds.
- **Debt Service Fund** – to account for accumulated resources for the payment of general long-term debt principal and interest. The department uses this fund primarily for the Long Range Building Program.
- **Capital Projects Fund** – to account for financial resources used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds or trust funds. The department uses this fund to account for activity in the Long-Range Building Program and for Long-Range Information Technology projects.

Proprietary Fund Category

- **Internal Service Fund** – to account for the financing of goods or services provided by one department or agency to other departments or agencies of state government or to other governmental entities on a cost-reimbursement basis. The department has fourteen Internal Service Funds, the three largest of which are State Information Technology Services Division, Group Benefits, and Agency Insurance.
- **Enterprise Fund** – to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the department finance or recover costs primarily through user charges; (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate; (c) where the activity is financed solely by a pledge of the net revenues from fees and charges of the activity; or (d) when laws or regulations require that the activities' cost of providing services, including capital costs, be recovered with fees and charges rather than with taxes or similar revenues. Department Enterprise Funds include flexible spending, state lottery, and surplus property.

Fiduciary Fund Category

- **Pension and Other Employee Benefit Trust Funds** – to account for resources required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, other post employment benefit plans, or other employee benefit plans. Department pension trust funds include the Voluntary Employee Beneficiary Association Trust.
- **Private-Purpose Trust Fund** – to account for activity of any trust arrangement not otherwise properly reported in a pension fund or an investment trust fund where the principal and income benefit individuals, private organizations, or other governments. Department private-purpose trust funds include Stale-Dated Warrants.
- **Agency Fund** – to account for resources held by the state in a custodial capacity. Agency funds may be used on a limited basis for internal (to the State) clearing account activity but these must have a zero balance at fiscal year-end. The department agency funds include Central Payroll and Federal Withholding.

Plant Funds – to account for transactions related to construction of university properties. Because the Architecture and Engineering Division expends funds for university construction projects, the department records activity in the following sub-funds:

- **Unexpended Plant Funds** – comprised of amounts which have been appropriated or designated for construction or purchase of university improvements, buildings, and equipment.
- **Renewal and Replacement Funds** – provide resources for the remodeling or replacement of university properties.

2. General Fund Equity

The department has authority to pay obligations from the statewide General Fund within its appropriation limits. The department's total assets placed in the fund exceed outstanding liabilities, resulting in positive ending fund equity balances for each of the fiscal years ended June 30, 2013, and June 30, 2014. As stated in note 3, the department is the administrator to the General Fund. As a result, the cash balances in the General Fund at fiscal year-end for all other state agencies are closed and recorded on the department's accounting records.

3. Direct Entries to Fund Equity

Direct entries to fund equity in the General, Special Revenue, Federal Special Revenue, Capital Projects, Internal Service, Enterprise, Unexpended Plant, and Renewal and Replacement funds include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies.

The department is the administrator of the General Fund. The direct entry to fund equity in the amount of $188,481,425 in fiscal year 2012-2013 and $88,951,124 in fiscal year 2013-14 reflects the department closing cash balances of other agencies sharing the General Fund. The General Fund's fund equity balances shown on the Schedule of Changes in Fund Balances and Property Held in Trust is not the total fund equity of the state's General Fund.

4. Related-Party Transactions

Current and past staff members in the Department of Administration, Health Care and Benefits Division, have served on Board of Directors of the Montana Association of Health Care Purchasers (MAHCP) for no remuneration. The Department pays this association $1.25 per member per year to maintain its membership as well as a monthly fee of $0.55 per member. They also pay MAHCP $0.71 per script for URx program administration, which also includes the Ask-A-Pharmacist Program. The monthly fees are payment for data analysis, actuarial analysis, and consulting services performed by association staff on behalf of member employers. The Montana University System is also a member of this organization.

5. Unspent Budget Authority

On the Schedule of Total Expenditures and Transfers out for fiscal years 2012-2013 and 2013-2014, the columns titled Departments & Agencies, Corrections, DPHHS, Information Technology Services Division, and University System have material unspent budget authority amounts. These amounts are related to active projects administered by the Long-Range Building Program. The entire estimated cost of a project is encumbered when the project is started. Many projects are not completed in one fiscal year, resulting in unspent budget authority amounts on the schedule. The unspent budget amounts represent estimated costs to complete the active projects.

6. Transfer Activity

Detail on department's significant transfer activity for fiscal years 2012-2013 and 2013-2014 is detailed in the list below.

- The department is responsible for making debt service payments on behalf of most state agencies for bonds issued by the state. Debt service payments are made twice per year on outstanding bonds. Prior to making the bond payments, the department transferred approximately $16 million in both fiscal year 2012-13 and in fiscal year 2013-14 from the General Fund to the Debt Service Fund. The department made bond payments totaling $19,472,327 in fiscal year 2012-2013 and $19,324,807 in fiscal year 2013-2014.

- State law requires transfers from the General Fund to the Montana State Fund's Old Fund in the event that the Old Fund assets are not sufficient to cover benefits being claimed for injuries sustained prior to July 1, 1990. In fiscal year 2011, the Old Fund assets were completely liquidated. General Fund transfers to the Old Fund were $10,640,749 in FY 2013 and $8,575,000 in FY 2014.
- House Bill 622 and House Bill 626 of the 2011 and 2013 Legislative Session's, respectively, required the department to transfer a specified percentage of General Fund motor vehicle revenue to other state departments for various programs per MCA 15-1-122, which was $4,905,071 in FY 2013 and $5,156,007 in FY 2014.
- Senate Bill 553 (2007) required a General Fund transfer of $227,285 for a rural physician's tax credit to the Commissioner of Higher Education. The transfer occurred in both FY 2013 and FY 2014. Senate Bill 372 (2011 Legislative Session) requires the department to transfer an amount determined by the Department of Revenue for attributable personal property taxes that are not a lien on real property for the 6-mill university levy to the Commissioner of Higher Education, $106,653 was transferred in FY 2013 and $171,496 was transferred in FY 2014.
- Senate Bill 166 and Senate Bill 243 of the 60th (2007) Legislative Session requires the department to reimburse from the General Fund the Department of Fish, Wildlife and Parks the issuance fee for fishing and hunting licenses to resident purple heart recipients and military recognition licenses. $65,849 was transferred in FY 2013 and $61,111 was transferred in FY 2014.
- House Bill 3 granted the department's Risk Management and Tort Defense Division a supplemental appropriation of $13,400,000 to help offset the Libby Asbestos Settlement costs.
- Senate Bill 175 of the 2013 Legislative Session required the department to transfer from the General Fund $22,950,178 to the Montana support for schools for funding the costs of restructuring the basis entitlement for FY 2014 and FY 2015.
- House Bill 377 of the 2013 Legislative Session requires an annual, ongoing transfer of $25 million to the Teacher Retirement System. The first transfer occurred on July 1, 2013.
- Senate Bill 410 of the 2013 Legislative Session required the department to transfer from the General Fund $2,000,000 to the Department of Corrections; $2,000,000 to the Department of Public Health and Human Services; $2,000,000 to the Department of Labor and Industry; and $7,500,000 to the Governor's Office for the purpose of funding operations.
- House Bill 6 of the 2013 Legislative Session required the department to transfer to the Department of Natural Resources and Conservation (DNRC) $20,473,686 from the General Fund for natural resource projects.
- House Bill 454 of the 2013 Legislative Session requires the department to transfer from the General Fund to MPERA Coal Severance Tax and Interest. The FY 2014 transfer for tax was $14,744,618 and $21,000,000 for interest.

- House Bill 354 of the 2013 Legislative Session required the department to transfer from the General Fund to the fire suppression fund the unencumbered balance of the $16,000,000 statutory appropriation for disaster and emergencies; the unencumbered amount of reverted General Fund appropriation and the General Funds collected in excess of $152,000,000. The amounts transferred in FY 2014 were respectively$943,867; $13,338,027 and $25,497,420.
- Senate Bill 96 of the 2013 Legislative Session required the department to transfer from the General Fund $164,811 for FY 2014 and $285,378 for FY 2015 to the University Systems for 6-mill levy reimbursement of the difference in property tax collected under MCA 15-6-138 and 15-6-145.
- The department administers the Long Range Building and Long Range Information Technology programs. House Bills 5 and 10 of the 2013 Legislative Session mandated that the department receive $49,550,000 for the Long Range Building Program and $11,451,785 for the Long Range Information Technology Program from the state's General Fund for various approved long range projects.

7. Reorganization

The Department completed two reorganizations at the beginning of FY 2014. The first included moving the Labor Relations Office from the State Human Resources Division to the Director's Office. 3.50 FTE were transferred along with $740 thousand of spending authority provided in HB 2 for the 2015 biennium. In addition, the State Continuity and Emergency Management Office was created by transferring proprietary spending authority and funding from the State Information Technology Division and General Services Division to the Director's Office. This included 4.0 FTE and $1.1 million in spending authority for the 2015 biennium.

8. Other

Capital Projects Fund - Budgeted Revenue and Transfers –in is approximately $66 million higher in FY 2014 than FY 2013 in the Capital Projects Fund. This is because of the HB 5 and HB 10 transfers from the 2013 legislative session described above.

Health Care Benefits Division Expenditures – There is approximately a $37 million increase between FY 2013 and FY 2014. The State Employee Group Benefit Plan (plan) operates on a calendar year basis. The plan transitioned to a new Third Party Administrator (TPA), for processing medical claims beginning January 1, 2013. As part of this transition, there was a lag in claims processing in early 2013 to ensure claims were processing correctly. In addition, the average claim processing time slightly increased with the TPA as compared to the plan's previous third party administrators. Due to the limited claims experience with the TPA as of June 30, 2013, the plan

estimated the Incurred but not Reported (IBNR) claims liability based on the claims processing time of the previous third party administrators. A larger IBNR adjustment was needed as of June 30, 2014. In addition, the plan offered an open enrollment for plan year 2014. This brought more dependents on to the plan effective January 1, 2014. The plan has also experienced a higher rate of catastrophic and high cost claims in plan year 2014.

General Fund Transfers In - The Montana Lottery, which is allocated to the Department of Administration, transfers net profits to the general fund. The transfer amount was $13.1 million in FY 2013 and $12.1 million in FY 2014.

Department of Administration

Department Response

MONTANA DEPARTMENT OF ADMINISTRATION

"the backbone of state government"

Director's Office

Steve Bullock, Governor • Sheila Hogan, Director

November 6, 2014

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Ms. Tori Hunthausen, CPA
Legislative Auditor
Legislative Audit Division
PO Box 201705
Helena, MT 59620-1705

RE: Financial Compliance Audit #14-13: Department of Administration for the Two Fiscal Years Ended June 30, 2014

Dear Ms. Hunthausen:

The Department of Administration has reviewed the Financial Compliance Audit for the two fiscal years ending June 30, 2014.

The department appreciates the unmodified opinion on its financial schedules on a regulatory basis of accounting.

Our responses to the recommendations appear below.

Recommendation #1

We recommend the department:

A. Approve only those loss mitigation activities meeting established criteria, and

B. Clearly document its approval in relation to the type of future insured loss the mitigation activity addresses.

Response:

Concur. The department will:

A. Develop a three-tiered approach for the approval of loss mitigation expenditures:

1. Critical or potentially catastrophic risks that may result in the loss of life, limb, or property will be treated as emergency mitigation expenses.

2. Expenditures for risks that are less emergent or less critical will be addressed through the formal loss mitigation grants program that is already in place, subject to review and approval by a committee of state and university risk management professionals; and
3. Under scenarios #1 and #2 above, expenses that exceed certain thresholds established by the department must be approved. Approvals will be by the Director of Administration and/or the Director of the Office of Budget and Program Planning.

The Risk Management & Tort Defense Division (RMTD) has a fiduciary responsibility that requires the flexibility to assist state agencies and universities with expenditures in the face of emerging risks, potential catastrophes, and as other circumstances dictate in order to prevent losses.

B. Incorporate and document the expected future loss the mitigation activity addresses.

Recommendation #2

We recommend the department:

A. Comply with federal regulations by excluding the cost of loss mitigation activities from the insurance premium rate setting process.

B. Require agencies to bear the cost of loss mitigation activities.

Response:

Do not concur:

A. In context, fiscal year 2014 SABHRS shows that RMTD insurance costs allocated to the federal special revenue funds are approximately 5% for state agencies and the Montana University System. Loss mitigation grants are about 3% of premium collections for the audit period.

OMB Circular A-87 (Cost Principles) allows federal programs to bear the cost of insurance as long as the costs are in accordance with the governmental unit's policy and sound business practice.

Under §2-9-202 (3), MCA, the Risk Management & Tort Defense Division may incur expenses that are actual and necessary for the efficient operation of the fund. Expenditures for products and services that prevent and/or mitigate losses benefit all state agencies and universities, including federally funded agencies.

The primary benefit that state agencies and universities receive is in the form of lower commercial insurance premiums and fewer incurred losses. The purpose of insurance is to pool the revenues as a group so that losses and expenses incurred in behalf of individual members of the group can be used in the most cost-effective manner to meet legal and financial obligations or to mitigate potential losses for the good of the group as a whole. No one agency is expected to pay the total costs of its unexpected losses in any given year. Conversely, no one agency is expected to pay the total costs of the division's loss mitigation expenses in any given year, including grants.

RMTD underwriters have endorsed our loss mitigation grant program for improving terms, conditions, and pricing for the State of Montana.

Loss payments, grant expenditures, legal defense, property inspections, building valuations, and hazard survey services provided by the division to state agencies are not provided uniformly because risks are not proportional across state agencies. Agency risks and losses differ greatly and the division applies grant awards or pays expenses for those items that have the greatest potential to reduce the impact on commercial or self-insured premiums for the benefit of the group as a whole.

B. Grant programs are offered by many other municipalities and/or municipal risk pools nationwide. Prevention is the essence of risk management. The department believes that loss mitigation grant expenditures are reasonable and allowable costs for state agencies, as well as for federally funded programs.

Recommendation #3

We recommend the department:

A. Record correcting entries to the state's accounting records to decrease the Other Post Employment Benefits liability, and

B. Include the required adjustment in its Other Post Employment Benefits calculations, as required by generally accepted accounting principles.

Response:

Concur. The department will:

A. Post correcting entries regarding the Other Post Employment Benefits liability, and

B. Revise the procedures in which the liability is calculated in future years to comply with GAAP.

Recommendation #4

We recommend the department provide guidance in state accounting policy regarding review of proper fund equity account classification and budget status.

Response:

Concur. The department will update its policy to provide additional guidance to agencies on the review of proper fund equity account classification and budget status.

Recommendation #5

We recommend the department follow its internal control procedures to conduct timely reconciliations of inter-entity loan activity.

Response:

Concur. The department will conduct timely reconciliations of inter-entity loan activity.

Recommendation #6

We recommend the department establish procedures to assess and document its consideration for a vendor to have licenses, permits, and liability insurance in order to use the capitol complex.

Response:

Concur. The department will establish better procedures to assess and document its consideration for a vendor to have licenses, permits, and liability insurance in order to use the capitol complex.

Recommendation #7

We recommend the department strengthen their internal controls at the Montana Health Centers to ensure the insurance plan pays only for costs attributable to program participants.

Response:

Partially Concur. The department feels it has adequate controls in place to ensure only eligible State of Montana Group Benefits Plan members are accessing the services at the Montana Health Center.

The Health Care and Benefits Division (HCBD) will request documentation to support hours worked by providers and travel mileage related to health screenings around the state. HCBD staff will review and perform spot checks of this documentation.

Recommendation #8

We recommend the department tag and inventory all state owned equipment located at the Montana Health Centers, in accordance with state accounting policy.

Response:

Concur. The department will tag and inventory laptops located at the Montana Health Centers, in accordance with state accounting policy.

Recommendation #9

We recommend the department:

A. Follow its procedures for removing terminated employee access, and

B. Develop controls to periodically review Expense Management System user access.

Response:

Concur. The department will add the Expense Management System to State Information Technology Services Division (SITSD) current security assessment process to meet the requirements of SITSD's Security Audit and Accountability Policy. SITSD will verify that all systems are meeting this requirement.

Recommendation #10

We recommend the department implement policies and procedures to identify pecuniary interest for construction projects.

Response:

Concur. The department will implement an updated ethics policy that requires employees to annually disclose conflicts of interest, like those identified in MCA 18-2-106.

Recommendation #11

We recommend the department:

A. Recover $654 in lost coal severance tax interest from Public Employees' Retirement Administration, and

B. Consider the impact of all transfers of coal severance tax interest income when calculating the amount available to Public Employees' Retirement Administration, in compliance with state law.

Response:

Concur. The department:

A. Will work with the Public Employees' Retirement Administration to recover the lost interest income.

B. Submitted the appropriate accounting adjustment for fiscal year 2014 and has considered other transfers for fiscal year 2015.

Recommendation #12

We recommend the department:

A. Conduct "during the award monitoring" to ensure subrecipients use federal Schools & Roads – Grants to States funds for allowable purposes, and

B. Issue management decisions and conduct follow-up on audit findings of subrecipients of federal Schools & Roads – Grants to States funds, as required by federal regulations.

Response:

Concur. The department will develop procedures for "during the award" and follow-up on audit findings, after discussions with the federal government about our current process of monitoring subrecipients.

Recommendation #13

We recommend the department adjust rates or reduce expenditures to ensure fees are commensurate with costs for Intergovernmental Training, Continuity Emergency Management, Central Stores and Human Resources Info Services, as required by state law.

Response:

Concur. The department will strive to make fees commensurate with costs for the funds identified.

I want to recognize and thank you and your staff for your work during this audit. We always look upon the audit process as an opportunity to improve the department's operations and performance.

The Department's Corrective Action Plan (CAP) is enclosed.

Sincerely,

Sheila Hogan

Sheila Hogan, Director
Department of Administration

Enclosure

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Department of Administration
Corrective Action Plan (CAP): Audit Report #14-13
Financial Compliance Audit For the Two Fiscal Years Ended June 30, 2014
November 6, 2014

Agency	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
61010	**Recommendation #1** We recommend the department: A. Approve only those loss mitigation activities meeting established criteria, and B. Clearly document its approval in relation to the type of future insured loss the mitigation activity addresses.	No	N/A	Concur	The department will: A. Develop a three-tiered approach for the approval of loss mitigation expenditures. B. Incorporate and document the expected future loss the mitigation activity addresses.	Brett Dahl RMTD Brett Dahl RMTD	1/1/2015 1/1/2015
61010	**Recommendation #2** We recommend the department: A. Comply with federal regulations by excluding the cost of loss mitigation activities from the insurance premium rate setting process.	Yes	Various	Do Not Concur	We do not concur: A. OMB Circular A-87 allows federal programs to bear the cost of insurance as along as the costs are in accordance with the governmental unit's policy and sound business practice. Under §2-9-202(3) MCA, RMTD may incur expenses that are actual and necessary for the efficient operations of the fund. Expenditures for products and services that prevent and/or mitigate losses benefit all state agencies and universities, including federally funded	N/A	N/A

Department of Administration
Corrective Action Plan (CAP): Audit Report #14-13
Financial Compliance Audit For the Two Fiscal Years Ended June 30, 2014
November 6, 2014

Agency	Recommendation #	[illegible]	[illegible]	Management View	CAP – Corrective Action Plan	Person responsible for CAP	Target Date
					agencies, in the form of lower commercial insurance premiums and fewer incurred losses. RMTD underwriters have endorsed our loss mitigation grant program for improving terms, conditions, and pricing for the State of Montana. No one agency is expected to pay the total costs of its unexpected losses in any given year. Conversely, no one agency is expected to pay the total costs of the division's loss mitigation expenses in any given year, including grants.		
	B. Require agencies to bear the cost of loss mitigation activities.				B. Grant programs are offered by many other municipalities and/or municipal risk pools nationwide. Prevention is the essence of risk management. The department believes that loss mitigation grant expenditures are reasonable and allowable costs for state agencies, as well as for federally funded programs.		

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61010	**Recommendation #3** We recommend the department: A. Record correcting entries to the state's accounting records to decrease the Other Post Employment Benefits liability, and B. Include the required adjustment in its Other Post Employment Benefits calculations, as required by generally accepted accounting principles.	No	N/A	Concur	The department will: A. Post correcting entries regarding the Other Post Employment Benefits liability, and B. Revise the procedures in which the liability is calculated in future years to comply with GAAP.	Cheryl Grey SFSD	11/30/2014
61010	**Recommendation #4** We recommend the department provide guidance in state accounting policy regarding review of proper fund equity account classification and budget status.	No	N/A	Concur	The department will update its policy to provide additional guidance to agencies on the review of proper fund equity account classification and budget status.	Cheryl Grey SFSD	5/31/2015
61010	**Recommendation #5** We recommend the department follow its internal control procedures to conduct timely reconciliations of inter-entity loan activity.	No	N/A	Concur	The department will conduct timely reconciliations of inter-entity loan activity.	Cheryl Grey SFSD	Ongoing

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[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
61010	**Recommendation #6** We recommend the department establish procedures to assess and document its consideration for a vendor to have licenses, permits, and liability insurance in order to use the capitol complex.	No	N/A	Concur	The department will establish better procedures to assess and document its consideration for a vendor to have licenses, permits, and liability insurance in order to use the capitol complex.	Stephen Baiamonte GSD	12/1/2014
61010	**Recommendation #7** We recommend the department strengthen their internal controls related to the Montana Health Centers to ensure the insurance plan pays only for costs attributable to program participants.	No	N/A	Partially Concur	The department feels it has adequate controls in place to ensure only eligible plan members are accessing services. HCBD will request documentation to support hours worked by providers and travel mileage related to health screenings around the state. HCBD staff will review and perform spot checks of this documentation.	Marilyn Bartlett HCBD	1/1/2015
61010	**Recommendation #8** We recommend the department tag and inventory all state owned equipment located at the Montana Health Centers in accordance with state accounting policy.	No	N/A	Concur	The department will tag and inventory laptops located at the Montana Health Centers in accordance with state accounting policy.	Marilyn Bartlett HCBD	1/1/2015

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61010	**Recommendation #9** We recommend the department: A. Follow its procedures for removing terminated employee access, and B. Develop controls to periodically review Expense Management System user access.	No	N/A	Concur	The department will add the Expense Management System to SITSD's current security assessment process to meet the requirements of SITSD's Security Audit and Accountability Policy. SITSD will verify that all systems are meeting this requirement.	Ron Baldwin SITSD	1/1/2015
61010	**Recommendation #10** We recommend the department implement policies and procedures to identify pecuniary interest for construction projects.	No	N/A	Concur	The department will implement an updated ethics policy that requires employees to annually disclose conflicts of interest, like those identified in MCA 18-2-106.	Yvette Englert D.O.	12/31/2014

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[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
61010	**Recommendation #11** We recommend the department: A. Recover $654 in lost coal severance tax interest from Public Employees' Retirement Administration, and B. Consider the impact of all transfers of coal severance tax interest income when calculating the amount available to Public Employees' Retirement Administration, in compliance with state law.	No	N/A	Concur	The department: A. Will work with the Public Employees' Retirement Administration to recover the lost interest income. B. Submitted the appropriate accounting adjustment for FY 2014 and has considered other transfers for FY 2015.	Mark Bruno D.O. Mark Bruno D.O.	6/30/2015 Completed
61010	**Recommendation #12** We recommend the department implement procedures to: A. Conduct "during the award monitoring" to ensure subrecipients use federal Schools & Roads – Grants to States funds for allowable purposes, and B. Issue management decisions and conduct follow-up on audit findings of subrecipients of federal Schools & Roads – Grants to States funds, as required by federal regulations.	Yes	10.665	Concur	The department will develop procedures for "during the award" and follow-up on audit findings, after discussions with the federal government about our current process of monitoring subrecipients.	Mark Bruno D.O.	3/1/2015

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61010	**Recommendation #13** We recommend the department adjust rates or reduce expenditures to ensure fees are commensurate with costs for Intergovernmental Training, Continuity Emergency Management, Central Stores and Human Resources Info Services, as required by state law.	No	N/A	Concur	The department will strive to make fees commensurate with costs for the funds identified.	Mark Bruno D.O.	Ongoing